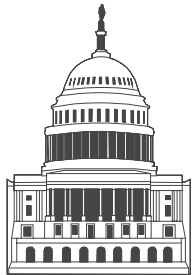


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MID-YEAR
BUDGET CUTS

“This budget crisis is the result of excessive government spending and the severe economic recession. Without meaningful reforms that improve our state’s job creation climate, California’s fiscal problems will continue.”

-Chuck Poochigian

DECEMBER 11, 2002

Senator Charles S. Poochigian



Capitol Update

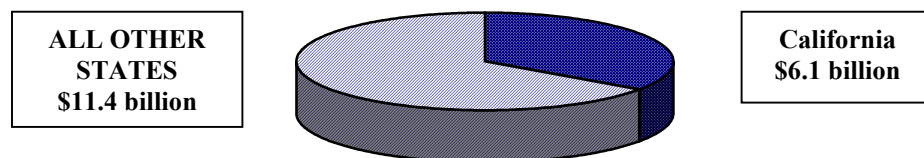
GOVERNOR ANNOUNCES BUDGET CUTS

Governor Davis recently announced his proposal for \$3.4 billion in mid-year budget cuts and \$6.8 billion in cuts for the next fiscal year. Most recent revenue projections by the Legislative Analyst’s Office indicate that the state is facing a \$21.1 billion shortfall over the two budget years. Others suggest the deficit will be closer to \$30 billion. The Assembly and Senate leaders have announced that this piecemeal approach to budget cuts will not be considered until the Governor releases his entire budget proposal on January 10, 2003.

	Current Year 2002-03	Budget Year 2003-04	TOTAL
LAO Projected Shortfall	\$6.1 billion	\$15 billion	\$21.1 billion
Governor’s Proposed Cuts/Loans	\$3.4 billion	\$6.8 billion	\$10.2 billion
Remaining Shortfall	\$2.7 billion	\$8.2 billion	\$10.9 billion

While almost all of the states are facing budget shortfalls, California’s deficit is significantly greater than any other state’s. The government spending spree of the last four years (over 30 percent just since 1998) and the state’s deepening economic crisis have created this year’s budget shortfall.

CALIFORNIA’S DEFICIT V. ALL OTHER STATES COMBINED



Source: National Conference on State Legislatures

HIGHLIGHTS

Transportation. The Governor proposes to cut transportation funding by \$1.8 billion primarily from:

- ◆ Suspension of a \$1 billion transfer authorized under Proposition 42;
- ◆ Elimination of \$90 million in apportionment funding for local streets and roads; and
- ◆ Forgiveness of \$500 million in loans to the General Fund.

In addition, \$100 million is proposed to be raided through the “reversion” of \$100 million from the Traffic Congestion Relief Fund.

K-14 Education. The Governor recommends reducing education spending by \$1.7 billion:

- ◆ The Governor's proposal includes an across the board 3.66% cut to save \$1.078 billion
- ◆ The proposal would revert prior year balances of regional occupational centers and programs (ROC/Ps) \$356.8 million and would eliminate CalWORKs State 3 child care (\$109 million).
- ◆ Deferral of state mandate payments (\$870 million) is also included.
- ◆ Community Colleges -- \$37.5 million property tax declines (no state backfill)

Higher Education. The proposal includes \$135 million in total cuts: \$74.3 million from UC and \$59.6 million from the California State University system.

Medi-Cal

- ◆ The Governor proposes to reduce provider rates by 10% for a total cut of \$90.4 million. The actual impact to providers will be much greater because the federal share of costs (approximately 50 percent) will also be lost.
- ◆ The proposal includes a rescission of the Medi-Cal expansion, the elimination of certain Medi-Cal optional benefits, and the reinstatement of quarterly status reports included in the 2002 budget for a savings of \$77 million in the current year.

Research Funds Cut. The Governor's list of program reductions includes the following cuts to health-related research:

- ◆ Valley Fever Vaccine \$1 million
- ◆ Cancer \$6.3 million
- ◆ Prostate Cancer \$10 million
- ◆ Gynecologic Cancer \$150,000

Welfare Benefits. The Governor proposes to eliminate the cost of living adjustment (COLAs) for SSI/SSP and CalWORKs that were included in the 2002 Budget (savings of \$24 million in the current year and \$410 million next year).

Food & Agriculture. \$980,000 is proposed by the Governor to be cut from Plant and Pest programs.

Local Government. Mandate that redevelopment agencies revert balances in their low and moderate housing funds – expected to be \$500 million.

The Trade and Commerce Agency. The Governor proposes to cut the state's economic development agency by \$13.5 billion. The proposal includes the complete elimination of the Biomass Program (\$4 million).

Department of Parks & Recreation. The Governor proposes raising park fees including day use, museum and camping fees to generate \$4.5 million in revenue.

Department of Water Resources. The proposal will revert \$58.1 million from local flood control subventions from projects funded within the last three years.

State Library. The Governor proposes to reduce by 50 percent state grants to local libraries, for a \$15.8 million savings.

Judiciary / Trial Courts. The proposal makes unallocated reductions of \$39 million in the Judiciary and \$250 million in the Trial Courts.

State Employees. The Governor's proposal authorizes a \$470 million reduction in salaries and benefits for state workers. However, the savings are contingent on renegotiations with the state employee unions.

State Teachers Retirement System (STRS). The proposal includes a reduction of the State's statutorily required annual payment to the Supplemental Benefit Maintenance Account of \$50 million for a savings of \$500 million, with a statutory commitment to restore the funds if purchasing power protection at the 80-percent level cannot be maintained through July 1, 2036.

Statewide – Reduction in State Operations. A component of the 2002 Budget Act was an unallocated reduction of up to \$750 million in State Operations. Absent further statutory changes, this mid-year reduction package is able to achieve only \$320 million of the targeted \$750 million reduction. An additional \$1.6 billion in state operation reductions likely will be proposed in the 2003-04 budget.

The full list of cuts can be accessed at:

http://www.dof.ca.gov/HTML/BUD_DOCS/midyr02.pdf